

PERAC AUDIT REPORT



Massachusetts Teachers' Contributory Retirement System



JAN. 1, 2000 - DEC. 31, 2003 / PERAC 03: 10-023-11



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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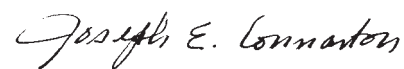
September 23, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Teachers'** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick, Robert Madison, and James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Teachers' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

1. Retirement Administration and Accounting General Ledger System:

The MTRB has been maintaining accounting records on a manual system primarily using various Excel spreadsheets. A monthly debit and credit General Ledger (GL) system that establishes and enhances a system of financial control does not exist. MASSTERS, which is the current MTRB Retirement Administration system implemented during the 3-year period from 1995-1998, included a GL module, which was unsuccessfully installed and therefore non-functional. The overall cost of implementing and maintaining the MASSTERS Operating System from 1995 to 2003 has been \$2.7 million dollars.

Currently a new system called "E-Retirement" (Please refer to "E-Retirement" Project Results below) is being implemented to replace the MASSTERS system. According to the "E-Retirement" project IT investment brief, the MASSTERS system includes the following key deficiencies: a.) the system does not protect against data integrity problems; b.) simple queries take over 16 hours; c.) the system lacks work flow tools and d.) staff must constantly duplicate data entry when responding to member service demands. In addition, MASSTERS does not provide necessary financial and auditing functions.

Recommendation:

In order to ensure that the integrity of financial data exists and can be monitored on at least a monthly basis, it is critical that an automated GL Accounting system be established at MTRB. Furthermore, this system should be developed to comply with PERAC's GL accounting and reporting requirements.

Board Response:

The Board expects to refine and enhance its accounting and financial recording for administrative and system expenses. The Board is reviewing several proposals that will allow us to move forward with a new operating system that will replace our current system and include an automated GL accounting system.

2. E-Retirement Project Status:

The E-Retirement System implementation project was initiated in July 2001 for purposes of replacing the MASSTERS system, which was deemed inefficient and antiquated. The Board selected the implementation vendor Tata InfoTech LTD Inc. (Tata), (out of 3 finalists) after a comprehensive review of proposed costs and vendor references was finalized.

In October 2004, an independent evaluation and implementation study of the MTRB E-Retirement system by IBM resulted in the recommendation that the project would require significant re-work in order to achieve the desired goals of maintainability and performance. The IBM Assessment report (provided upon written request) resulted in eleven key findings including recommendations for remediation. The issues identified by IBM included incomplete

Teachers' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

Requirements Documentation, incomplete Security Design and Implementation, and deviations from Java Coding Best Practices. The overall impact of the eleven findings indicated that more than 80% of the Java code in the application would need substantial revision and/or replacement in order to achieve the desired system goals. In IBM's opinion, this amount of change was equivalent to rewriting the code from scratch. In addition, IBM concluded that major re-work revisions would be needed within the database design and user interfaces.

As of June 30, 2004, project costs amounted to \$3.3 million dollars. In November of 2004, the MTRB voted to discontinue the project and suspend the contract with Tata. In February 2005, the two entities mutually agreed to terminate the contract and entered into a settlement agreement by which MTRB recovered \$550,000 of the \$1.1m paid to Tata.

Recommendation:

We recommend replacing the MASSTERS system, and we believe the project must go forward in the near future. It is vital that the MASSTERS system be replaced with a modern and efficient MTRB operating and GL software system.

Board Response:

The Board has taken the first of several steps to move forward on a new information management system. We expect to have a consultant on board by the end of September to identify the successes and failures of our last project as we move forward on the development and implementation of a new system. A new information management system is a top priority of the Board.

3. Expenses Paid:

Our review of MTRB administrative expenses paid during the period 2000-2003 indicated that 12.5% of the expense warrants sampled for the purchase of a commodity or service did not have proper supervisor signature of receipt of such commodity or service delivered.

Recommendation:

"Best business practices" and good internal control procedures encourage the review and approval of final vendor bills by a departmental supervisor responsible for the product or service received. This approval process should be immediately adopted by MTRB and incorporated in writing with the MTRB policies and procedures manual.

Board Response:

The Board will review and amend its internal control policy to incorporate PERAC's recommendation.

Teachers' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

4. Refunds:

A member who terminated his service and received a refund of contributions on August 4, 2000 was not refunded his accumulated interest of \$10,336.60. G.L. c. 32, § 11 (1) stipulates that a member who has accumulated over ten years of service upon termination is entitled to 100% accrued interest on his/her annuity savings fund balance.

Recommendation:

The member should be given the choice to receive either a cash refund or an increase to her annuity savings fund by the amount of accumulated interest not refunded.

Board Response:

The member who terminated service has once again become a member of the MTRS. The Board will review PERAC's audit recommendation with tax counsel and forward a response to PERAC's legal counsel.

5. Current Retirees:

PERAC auditors sampled approximately five percent of the CY 2004 retirees. During the review of the three-year average salary calculations of those retirees, the components of the members' salary were reviewed. Certain payments classified as regular compensation and made to various teachers through the three-year average salary calculations may possibly violate M.G.L. c. 32, § 1 and 840 CMR 15.03. Some teacher contracts that previously cited retirement incentives are now being adapted to reflect longevity payments as regular compensation. These enhanced longevity buy-outs, as they are commonly referred, have been upheld by the State Appeals Court.

PERAC auditors sampled the folders of 150 teachers out of a total of 3,500 teachers who retired in 2004. The auditors reviewed each folder for correctness in calculating the three-year salary averages; salary verification; correctness of creditable service and completeness of information in each folder. The staff of the MTRB is to be complimented in their due diligence in making sure these important calculations were correct. Out of the sample of 150 folders, the auditors found only one transposition error in supplemental wages.

Recommendation:

PERAC is currently reviewing teacher contracts in an effort to determine whether payments reported as regular compensation meet all of the requirements to be classified as such. The Board must receive detailed payroll information and the school contract in order to ensure proper calculation of a member's three-year average salary and to properly rule on any enhanced longevity buy-out provision.

Teachers' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

The Board continues to review and analyze teacher contracts to ensure proper calculation of a member's three-year average salary and to determine eligibility of any enhanced longevity buy-out provisions. The Board has also filed legislation that would exclude the use of temporary or non-permanent salary enhancements or augmentations from the statutory definition of regular compensation.

6. Members' Contribution and Deduction Rates:

PERAC auditors randomly sampled contributions from over 400 school districts representing some 85,000 individual members of the MTRB. This sample resulted in an overall incident error rate of 4%. This compares with an overall incident error rate of 17% for the last PERAC three-year audit period ending December 31, 1999.

Recommendation:

The MTRB has made improvement since the prior PERAC audit. However, an overall incident error rate of 4% represents an estimated 3,400 incorrect teacher deductions. As stated in the prior audit, the MTRB must review member contribution rates and 2% over \$30,000 deductions submitted by the school districts and stored in the Membership Computer Base (MASSTERS) System. The MTRB should consider adding temporary or permanent staff to its Employer Reporting Unit to specifically review and correct member contribution and deduction rates in a timely manner.

Board Response:

The Board has taken a number of pro-active steps in the past to reduce the incidents of incorrect assessments. The Board will review its staffing levels to review and correct member contribution and deduction rates in a timely manner.

7. Business Continuity/Disaster Recovery Plan:

The MTRB does not have a working Business Continuity/Disaster Recovery Plan.

During the audit fieldwork period from 2/14/05 – 2/17/05 a major disruption in phone service and Internet connectivity occurred at the Canal Street, Boston facility. Incoming and outgoing phone service at the MTRB was completely disabled from early Monday morning 2/14/05 until the end of business on Thursday 2/17/05. Furthermore, Internet connectivity via the T1 cable line was disabled from early Monday morning 2/14/05 until Wednesday morning 2/16/05. The lines being accidentally cut due to construction work being performed in the Canal Street facility apparently caused the disruption in phone and T1 cable line service. This incident caused a significant disruption to MTRB operations.

In the previous PERAC audit, the auditors noted that the MTRB does not have adequate fire protection for membership records.

Teachers' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

In today's environment the risk of business interruption caused by intentional or unforeseen acts, the like of which recently occurred are an imminent business risk. Therefore, MTRB should consider developing a comprehensive Business Continuity/Disaster Recovery Plan. The plan should address all risks to the disruption of business, and include comprehensive Service Level Agreements with key vendors. Finally, after the plan is developed it should be tested to ensure its effectiveness.

We recognize that the MTRB has undertaken several initiatives to minimize risks to membership records; however, an active alarm system connected to the Boston Fire Department or an independent alarm service could help to minimize damage posed by potential fire risks.

Board Response:

The Board continues to review its disaster recovery plan and will be testing an upgraded business continuity plan later this year. The Board is also in the final stages of an office relocation project.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Teachers' Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2003	2002	2001	2000
Short Term Investments	(236,050)	172,556		
PRIT Cash Account	30,037,396	39,977,415	45,316,244	21,985,626
PRIT Capital Fund	15,876,631,198	12,796,760,278	14,173,812,094	14,898,624,580
Accounts Receivable	67,560,441	40,239,104	45,503,575	33,225,096
TOTAL	<u>\$15,973,992,984</u>	<u>\$12,877,149,353</u>	<u>\$14,264,631,913</u>	<u>\$14,953,835,302</u>
FUND BALANCES				
Annuity Savings Fund	\$3,609,948,789	\$3,423,877,356	\$3,164,626,633	\$2,927,595,420
Annuity Reserve Fund	1,456,641,036	1,248,839,326	1,071,881,884	858,393,629
Pension Fund	24,542,971	0	0	0
Military Service Fund	119,671	98,915	897,991	895,778
Expense Fund	1,949,628	2,722,145	0	0
Pension Reserve Fund	10,880,790,889	8,201,611,611	10,027,225,405	11,166,950,475
TOTAL	<u>\$15,973,992,984</u>	<u>\$12,877,149,353</u>	<u>\$14,264,631,913</u>	<u>\$14,953,835,302</u>

Teachers' Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$2,683,740,434	\$801,795,922	\$0	\$880,724	\$0	\$11,583,572,886	\$15,069,989,966
Receipts	439,892,225	24,264,586	429,715,913	15,053	4,789,106	(325,388,852)	573,288,031
Interfund Transfers	(173,343,968)	142,577,527	122,000,000	0	0	(91,233,558)	0
Disbursements	(22,693,270)	(110,244,406)	(551,715,913)	0	(4,789,106)	0	(689,442,695)
Ending Balance (2000)	2,927,595,420	858,393,629	0	895,778	0	11,166,950,475	14,953,835,302
Receipts	508,245,292	27,130,378	577,430,236	2,213	5,468,395	(950,012,619)	168,263,896
Interfund Transfers	(248,925,266)	303,888,733	134,748,984	0	0	(189,712,451)	0
Disbursements	(22,288,814)	(117,530,855)	(712,179,220)	0	(5,468,395)	0	(857,467,285)
Ending Balance (2001)	3,164,626,633	1,071,881,884	0	897,991	0	10,027,225,405	14,264,631,913
Receipts	563,355,874	38,589,366	397,742,594	17,341	8,762,668	(1,414,930,248)	(406,462,404)
Interfund Transfers	(283,285,753)	284,738,781	385,000,000	(816,418)	0	(385,636,611)	0
Disbursements	(20,819,399)	(146,370,705)	(782,742,594)	0	(6,040,523)	(25,046,935)	(981,020,155)
Ending Balance (2002)	3,423,877,356	1,248,839,326	0	98,915	2,722,145	8,201,611,611	12,877,149,353
Receipts	539,720,229	44,889,735	397,097,510	56,255	6,353,099	3,206,050,685	4,194,167,513
Interfund Transfers	(329,528,248)	330,340,583	523,344,572	(35,499)	0	(524,121,408)	0
Disbursements	(24,120,548)	(167,428,608)	(895,899,111)	0	(7,125,616)	(2,750,000)	(1,097,323,883)
Ending Balance (2003)	<u>\$3,609,948,789</u>	<u>\$1,456,641,036</u>	<u>\$24,542,971</u>	<u>\$119,671</u>	<u>\$1,949,628</u>	<u>\$10,880,790,889</u>	<u>\$15,973,992,984</u>

Teachers' Retirement System

STATEMENT OF INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Annuity Savings Fund:				
Members Deductions	\$491,609,576	\$498,004,143	\$429,087,354	\$359,150,756
Transfers from other Systems	11,344,472	15,566,142	15,697,618	13,992,147
Member Make Up Payments and Redeposits	0	0	0	0
Investment Income Credited to Member Accounts	<u>36,766,181</u>	<u>49,785,589</u>	<u>63,460,321</u>	<u>66,749,323</u>
Sub Total	<u>539,720,229</u>	<u>563,355,874</u>	<u>508,245,292</u>	<u>439,892,225</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>44,889,735</u>	<u>38,589,366</u>	<u>27,130,378</u>	<u>24,264,586</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	4,653,823	3,608,473	3,156,294	2,704,034
Received from Commonwealth for COLA and Survivor Benefits	53,923,040	44,412,628	30,494,287	26,182,416
Pension Fund Appropriation	313,977,676	349,721,492	543,779,654	400,829,462
Receivable Due for excess Pension Reserve Fund Benefits	<u>24,542,971</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>397,097,510</u>	<u>397,742,594</u>	<u>577,430,236</u>	<u>429,715,913</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	55,522	16,143	1,130	2,132
Investment Income Credited Military Service Fund	<u>733</u>	<u>1,198</u>	<u>1,084</u>	<u>12,921</u>
Sub Total	<u>56,255</u>	<u>17,341</u>	<u>2,213</u>	<u>15,053</u>
Expense Fund:				
Investment Income Credited to Expense Fund	5,276,764	7,821,646	5,468,395	4,789,106
Transfer from General Fund for ITD Bond	<u>1,076,335</u>	<u>941,023</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,353,099</u>	<u>8,762,668</u>	<u>5,468,395</u>	<u>4,789,106</u>
Pension Reserve Fund:				
Interest Not Refunded	737,089	578,141	714,246	1,245,254
Excess Investment Income	3,190,883,445	(1,415,508,390)	(950,589,617)	(332,862,089)
Account Adjustments - Pension Reserve Fund	13,750,000	0	(137,248)	6,227,982
Receivable Due Pension Reserve Fund	<u>680,152</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,206,050,685</u>	<u>(1,414,930,248)</u>	<u>(950,012,619)</u>	<u>(325,388,852)</u>
TOTAL RECEIPTS	<u>\$4,194,167,513</u>	<u>(\$406,462,404)</u>	<u>\$168,263,896</u>	<u>\$573,288,031</u>

Teachers' Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
	2003	2002	2001	2000
Annuity Savings Fund:				
Refunds to Members	\$20,500,008	\$16,184,305	\$18,124,160	\$18,274,038
Transfers to other Systems	3,537,035	3,335,889	4,164,654	4,419,232
Account Adjustments	<u>83,504</u>	<u>1,299,204</u>	<u>0</u>	<u>0</u>
Sub Total	<u>24,120,548</u>	<u>20,819,399</u>	<u>22,288,814</u>	<u>22,693,270</u>
Annuity Reserve Fund:				
Annuities Paid	166,045,137	144,858,039	116,219,128	109,057,147
Option B Refunds	<u>1,383,470</u>	<u>1,512,666</u>	<u>1,311,727</u>	<u>1,187,259</u>
Sub Total	<u>167,428,608</u>	<u>146,370,705</u>	<u>117,530,855</u>	<u>110,244,406</u>
Pension Fund:				
Pensions Paid - Regular Pension Payments	779,131,002	683,104,926	593,647,040	524,067,215
3 (8) (c) Reimbursements to Other Systems	62,845,069	55,225,039	88,037,892	1,466,282
State Reimbursable COLA's Paid	53,923,040	44,412,628	30,494,287	26,182,416
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>895,899,111</u>	<u>782,742,594</u>	<u>712,179,220</u>	<u>551,715,913</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Salaries	4,061,840	3,719,467	3,768,681	2,940,452
Legal Expenses	35,319	28,033	56,792	0
Medical Expenses	0	0	0	0
Travel Expenses	40,158	41,935	41,480	127,207
Administrative Expenses	617,316	1,348,082	1,111,540	1,499,274
Furniture and Equipment	868,988	137,828	127,664	0
Rent Paid	442,050	0	0	0
Custodial Fees	0	0	0	0
Consultant Fees	<u>1,059,946</u>	<u>765,178</u>	<u>362,238</u>	<u>222,174</u>
Sub Total	<u>7,125,616</u>	<u>6,040,523</u>	<u>5,468,395</u>	<u>4,789,106</u>
Pension Reserve Fund:				
Transfer to General Fund for PERAC expenses	2,750,000	13,750,000	0	0
Adjustment for wire cash transfers	<u>0</u>	<u>11,296,935</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,750,000</u>	<u>25,046,935</u>	<u>0</u>	<u>0</u>
TOTAL DISBURSEMENTS	<u>\$1,097,323,883</u>	<u>\$981,020,155</u>	<u>\$857,467,285</u>	<u>\$689,442,695</u>

Teachers' Retirement System

INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Investment Income Received From:				
PRIT Capital Fund	\$3,277,799,440	(\$1,319,310,591)	(\$854,530,523)	(\$237,059,074)
Masters Income	0	0	0	0
Military Service Fund Income	17,417	0	1,084	12,921
TOTAL INVESTMENT INCOME	<u>3,277,816,858</u>	<u>(1,319,310,591)</u>	<u>(854,529,439)</u>	<u>(237,046,153)</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	0
Realized Gains	0	0	0	0
Unrealized Gains	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Current Year	0	0	0	0
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	0	0	0	0
Realized Loss	0	0	0	0
Unrealized Loss	0	0	0	0
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	0	0	0	0
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET INVESTMENT INCOME	<u>3,277,816,858</u>	<u>(1,319,310,591)</u>	<u>(854,529,439)</u>	<u>(237,046,153)</u>
Income Required:				
Annuity Savings Fund	36,766,181	49,785,589	63,460,321	66,749,323
Annuity Reserve Fund	44,889,735	38,589,366	27,130,378	24,264,586
Military Service Fund	733	1,198	1,084	12,921
Expense Fund	<u>5,276,764</u>	<u>7,821,646</u>	<u>5,468,395</u>	<u>4,789,106</u>
TOTAL INCOME REQUIRED	<u>86,933,412</u>	<u>96,197,799</u>	<u>96,060,177</u>	<u>95,815,936</u>
Net Investment Income	<u>3,277,816,858</u>	<u>(1,319,310,591)</u>	<u>(854,529,439)</u>	<u>(237,046,153)</u>
Less: Total Income Required	<u>86,933,412</u>	<u>96,197,799</u>	<u>96,060,177</u>	<u>95,815,936</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$3,190,883,445</u>	<u>(\$1,415,508,390)</u>	<u>(\$950,589,617)</u>	<u>(\$332,862,089)</u>

TEACHERS' RETIREMENT SYSTEM

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$0	0.00%	100
Short Term	(236,050)	0.00%	100
PRIT Cash Fund	30,037,396	0.19%	
PRIT Core Fund	<u>15,876,631,198</u>	<u>99.81%</u>	100
GRAND TOTALS	<u>\$15,906,432,544</u>	<u>100.00%</u>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Teachers'** Retirement System was 26.42%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Teachers'** Retirement System averaged 5.77%. For the nineteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Teachers'** Retirement System was 11.46%.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Massachusetts public school teachers with the exception of those employed by the City of Boston. The State-Boston Retirement System administers the pensions of Boston Teachers.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 – THE SYSTEM (CONT'D.)

When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The Commonwealth of Massachusetts must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Teachers'** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 5, 1985

3.01: Retirement Date

If a member is in service until the school in which he is employed closes for the school year, his retirement shall not take effect earlier than 12 o'clock midnight on June 30, irrespective of any earlier date, which may be designated on his application.

3.02: The Amount of Service in Any Calendar Year That Shall Be the Equivalent to One Year of Creditable Service

Members of the Teachers' Retirement System, who earn their salary on a 12-months basis, such as superintendents and any other persons who must serve for 11 months with one month vacation to receive salary for a full year, shall, for the periods they were employed on a 12-month basis, be allowed credit for the years and full calendar months of service, with the month of vacation

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

counted as a month of service. All persons defined as teachers who earn their salary during the school year from September to June, shall, irrespective of the manner in which their salary is paid, be allowed a year's credit for each full school year of service and one-tenth of a year for each full month of service rendered during a school year.

3.03: Retirement Credit for Service Rendered as a Part-time, Temporary, or Substitute Teacher

Subject to verification as specified by the agency, members may obtain credit on a prorated basis for service rendered as a temporary, substitute or part-time teacher for any month where service equaled or exceeded 9.0 days full-time creditable service.

September 11, 1989

3.04: Retirement Credit for Service Rendered as a Part-Time Member

1. Any part-time employee who qualifies for membership, shall receive one (1) year of creditable service provided they work the hours required by their position and provided their entire service is on a part-time basis.
2. Subject to verification as specified by the agency any part-time employee who becomes full-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.
3. Subject to verification as specified by the agency full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.

4.01: Purpose of Standard Rules: Retirement Board Policy

The purpose of 807 CMR 4.00 is to establish uniform criteria and procedures to be applied by the retirement board in determining an individual's eligibility for membership within the Massachusetts Teachers' Retirement System. It shall be the policy of the retirement board to assist all public school teachers and administrators to obtain all rights and benefits authorized by M.G.L. c. 32 while protecting the retirement systems for liability not authorized by law.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

4.02: Eligibility Criteria

(1) No individual shall be eligible for membership within the retirement system unless the retirement board finds:

(a) The individual is covered by a contractual agreement regarding employment with one or more school committees or boards of trustees or by any combination of such committees and boards;

(b) The contractual agreement required not less than half-time service;

(c) The individual holds a certificate granted by the board of education, has been granted a waiver pending certification by the board of education, or has been approved as an apprentice teacher in accordance with the provision of section 21 of chapter 188 of the Acts of 1985; and

(d) The individual has a contractual agreement which requires that the individual be certified by the board of education as a condition of employment.

(2) In addition to those individuals determined to be eligible pursuant to 807 CMR 4.02(1), the following individuals shall be deemed eligible for membership:

(a) An individual employed on the basis of not less than half time in a position specifically provided for in the definition of teacher as set forth in M.G.L. c.32, §.1 provided, said individual meets the statutory requirements for said position; and

(b) An individual who holds a certificate granted by the board of education and is employed on the basis of not less than half-time as the director of an educational collaborative as organized and approved under the provisions of M.G.L. c.40 §.4E.

3. In making the findings required by 807 CMR 4.02(1)(b) half-time service shall be full-time employment of nine or more days per month.

4.03: Enrollment; Decision; Appeal

(1) **Enrollment.** An individual who enters into a contractual agreement regarding employment with a school committee or board of trustees shall receive from such committee or board a form (MTRB Enrollment FORM) which must be filed with the retirement board within thirty (30) days of the individual becoming eligible for membership within the retirement system. In making the determination as to when said individual shall become eligible the committee or board shall adhere to the following criteria:

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

- (a) any individual who becomes employed on a permanent basis shall become eligible upon entry into service; or(b) any individual who becomes employed on a part-time or temporary basis shall become eligible upon the completion of six (6) calendar months.

(2.) Decision. If the retirement board upon receipt of the enrollment form required by 807 CMR 4.03(1) finds that an individual is ineligible for membership pursuant to the criteria established by 807 CMR 4.02(1), the retirement board shall either deny the enrollment or, if it determines that said individual should qualify for membership notwithstanding his/her failure to meet the criteria established by 807 CMR 4.02(1)(c) or (d), the retirement board shall request the school committee or board or trustees to submit information which would support the individual's eligibility for membership within the retirement system. If upon consideration of such information, the retirement board determines that said individual remains ineligible, the retirement board shall deny the enrollment.

(3) Notice of Decision: Appeal. If the retirement board decides to deny an individual's eligibility, notice shall be sent to said individual and to the school committee or board of trustees. A copy of M.G.L. c. 32, §.16(4) shall be included with the notice to the individual and upon request, the retirement board shall advise and assist said individual to file an appeal.

4.04: Continued Eligibility

(1) Whenever a member of the retirement system enters or re-enters service or changes positions, the school committee or board of trustees shall file an enrollment form as required by 807 CMR 4.03(1); provided, that in such instance a member pursuant to the provisions of 807 CMR 4.03(2). who is employed on a part-time or temporary basis shall be eligible for membership upon entry or re-entry into service.

(2) Upon receipt of the enrollment form required by 807 CMR 4.04(1), the retirement board shall consider the member's continued eligibility

May 1, 1990

807 CMR 4.02 (1) (b)

The contractual agreement required not less than half time service; provided, that for the purpose of determining eligibility, half time shall be defined as fifteen (15) hours per week;

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

February 6, 1994

6.01: Purpose of Standard Rules; Retirement Board Policy; Definition

The purpose of 807 CMR 6.00 is to clarify and standardize what shall be considered as regular compensation for purposes of retirement. Standardizing and clarifying regular compensation will enable the retirement board to ensure consistency and accurate retirement calculation of all member retirements, and to guarantee compliance with its fiduciary responsibility as provided in M.G.L. c. 32.

For the purpose of this regulation, annual contract shall have the following meaning: In the case of a teacher the annual contract is the collective bargaining agreement for the unit which governs the rights of the members whether it is a one year or multi-year agreement. In the case of an administrator the annual contract is the individual employment agreement which governs the rights of the member whether it is a one year or multi-year agreement.

6.02: Regular Compensation

(1) The term regular compensation as defined by M.G.L. c. 32, § 1 and further defined by 840 CMR 15.02 shall include:

(a) Any premiums paid by a governmental unit for the purchase of any individual or group life insurance policy and/or any individual disability insurance policy.

(b) Salary payable under the terms of an annual contract for additional services so long as:

1. The additional services are set forth in the annual contract;
2. The additional services are educational in nature;
3. The remuneration for these services is provided in the annual contract;
4. The additional services are performed during the school year.

(2) During such period the term regular compensation as so defined shall not include:

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

- (a) Any amounts paid for special projects involving tasks which are not part of the annual contract and which are not performed on a year to year basis;
- (b) Any amounts paid for work performed during the summer months unless the member's position in which he/she is employed during the school year requires that he/she work for eleven or twelve months and the annual contract provides for the same;
- (c) Any amounts paid as an allowance which the Board considers a necessary cost of employment;
- (d) Any amounts paid as a reimbursement for a necessary cost of employment;
- (e) Any amounts paid as a career incentive which do not become part of the member's base salary;
- (f) Any other payments made as a result of the employer having knowledge of the member's retirement.

6.03: Early Retirement Incentives

(1) The term early retirement incentive shall include but not be limited to the following and shall not be considered as regular compensation:

- (a) Any amounts termed a longevity which are paid as a result of the member giving notice of retirement;
- (b) Any amounts paid as a retroactive increase in salary provided in an annual contract that has been renegotiated as a result of the member giving notice of retirement;
- (c) Any amounts paid as salary which in prior years were paid as a reimbursement or an allowance for the necessary costs of employment as a result of the member giving notice of retirement;
- (d) Any amounts paid as salary for additional duties which do not become a permanent component of the job description as a result of the member giving notice of retirement.

If the Teachers' Retirement Board believes any part of the application contains false, fictitious or fraudulent information, the board shall notify the Attorney General or appropriate district attorney.

(3) Upon receipt of an application by a member for ordinary or accidental disability retirement, the Teachers' Retirement Board shall request the member's department head and superintendent to complete the Employer's Statement. If the department head is not familiar with the member's claim, the statement shall be prepared by the member's supervisor and shall be approved by the superintendent.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

(4) Applications for ordinary or accidental disability retirement shall be considered by the Teachers' Retirement Board only upon completion of all the forms set forth in 807 CMR 7.00.

May 9, 1995

807 CMR 7.00: Documentation to be Obtained for Ordinary or Accidental Disability Retirement.

Section

7.01: Purpose of Standard Rules

7.02: Application Forms

These are the standard rules governing the application procedure as it relates to the documentation necessary for ordinary and accidental disability retirement for all individuals within the Massachusetts Teachers' Retirement System promulgated by the Teachers' Retirement Board under the statutory authority found in M.G.L. c. 15, s. 16.

These rules shall establish the forms to be used for members of the Massachusetts Teachers' Retirement System who are applying for an ordinary or accidental disability retirement and shall, except as specifically provided herein, be supplementary to those rules governing the disability process as promulgated by the Commissioner of the Public Employee Retirement Administration and set out in 840 CMR 10.00.

7.01: Purpose of Standard Rules

The purpose of 807 CMR 7.00 is to provide disability application materials which address the employment situation of teachers and administrators. Using these materials will enable the retirement board to ensure that it has the information needed to guarantee compliance with its fiduciary responsibility as provided in M.G.L. c. 32.

7.02: Forms to be Completed for an Ordinary or Accidental Disability Retirement

- (1) Proceedings for ordinary or accidental disability retirement may be brought by any member of the Massachusetts Teachers' Retirement System who becomes totally and permanently

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

disabled while a member in service by filing an application with the Teachers' Retirement Board. The application shall consist of forms:

- (a) Disability Retirement Application; and
- (b) Disability Applicant's Physician's Statement.

These forms are to be utilized in lieu of the disability retirement forms otherwise required by 840 CMR 10.06(1).

(2) Applications shall be considered filed as of the date upon which the applicant completes and submits all the required forms to the Teachers' Retirement Board.

Unless otherwise authorized by vote of the Teachers' Retirement Board no more than one application for ordinary or accidental disability retirement shall be filed for the same condition or injury within any twelve (12) month period.

September 27, 2000

Maternity service purchases

Section

10.01. Purpose.

The purpose of 807 CMR 10.00 is to establish the procedure for the purchase of creditable service for maternity leave, as authorized by M.G.L. c. 32, § 4(1)(g 1/2), and to provide guidance as to the Board's interpretation of the statute. These regulations supplement the provisions of G.L. c. 32, §4 (l)(g 1/2).

10.02. Definitions.

For purposes of this regulation:

- (1) "Compensation" is, for any given year, either the regular compensation that was actually paid for the position that the member left, or the Presumed Salary adjusted to reflect the teacher's normal full or part-time schedule, as the case may be. Absent documentation to the contrary, the member's Compensation for each year equals the Presumed Salary.
- (2) "Leave" is an authorized unpaid absence from employment as a teacher in Massachusetts, a period of unemployment after resignation as a teacher in Massachusetts, or a period following a break in active membership as a teacher due to the member working on a basis of less than half time.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

The "Leave" must be immediately preceded by membership service. A termination of employment as a teacher for cause (other than maternity) shall not be considered a Leave. The Leave will be considered terminated upon re-entry into membership service in a Massachusetts contributory retirement system on at least a half time basis.

(3) "Maternity Leave" is a Leave that begins no more than nine months before the birth or adoption of a child. The Board may request any documents that it determines are needed to make this determination, including but not limited to birth certificates, adoption records, or documents establishing termination of employment. A Leave that the Board determines is for a reason other than the birth or adoption of a child is not a Maternity Leave.

(4) "Presumed Salary" is defined in the table in section 10.05.

10.03. Applicability.

This regulation applies to all eligible members regardless of gender.

10.04. Service That Can Be Purchased.

(1) A member may purchase creditable service pursuant to M.G.L. c. 32, § 4(1)(g tip) for any Maternity Leave that begins before January 1, 1975, even if such Leave extends beyond that date.

(2) A member may purchase creditable service equal to the duration of each Maternity Leave, up to a maximum of four years.

(3) In no event may a member purchase more than the statutory maximum of four years, regardless of the number of Maternity Leaves.

(4) A member shall receive full creditable service equal to the full years and full months of the Maternity Leave (i.e. full-time credit, not pro-rated).

(5) One year shall equal the member's normal work year immediately preceding the Maternity Leave. A member can purchase only those months normally worked immediately before the Maternity Leave.

10.05. Contributions.

(1) The member must pay into the Annuity Savings Fund an amount equal to the deductions that would have been withheld had the member continued in service, together with regular interest. Contributions will be made at the rate of 5% of the Compensation for each year.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

(2) The Presumed Salary for each year is as follows:

School Year	Presumed Salary	School Year	Presumed Salary	School Year	Presumed Salary	School Year	Presumed Salary
1954-55	\$4,045	1960-61	\$5,500	1966-67	\$7,300	1972-73	\$10,519
1955-56	\$4,140	1960-61	\$5,775	1967-68	\$7,550	1973-74	\$11,128
1956-57	\$4,325	1960-61	\$6,075	1968-69	\$8,100	1974-75	\$12,734
1957-58	\$4,650	1960-61	\$6,275	1969-70	\$8,764	1975-76	\$13,519
1958-59	\$4,950	1960-61	\$6,950	1970-71	\$9,611	1976-77	\$14,311
1959-60	\$4,300	1960-61	\$7,100	1971-72	\$10,178	1977-78	\$15,336

If a member has more than four years of Maternity Leave, or chooses to purchase fewer than four years, the Board will specify which years may be purchased. All service must be purchased in increments of whole months.

(3) For members paying pursuant to an installment plan, the Board may require interest at a rate to be determined by the Board (in addition to regular interest). For those members eligible to purchase under section 4(1)(g A) prior to December 31, 2001, all installments must be paid no later than that date.

March 26, 2001

9.01: Purpose

The purpose of 807 CMR 9.00 is to provide a pick-up of employee contributions under s. 414(h) (2) of the Internal Revenue Code of 1986 for Retirement Plus accelerated contributions that are made pursuant to the alternative superannuation retirement benefit of M.G.L. c. 32, s. 5

9.02: Authorization

Members in service who pursuant to M.G.L. c. 32, s. 5, have elected to participate in the alternative superannuation program may also elect to accelerate their contributions to this program. Unless paid directly to the system, these accelerated contributions must be made in accordance with a schedule established by the Board through binding, irrevocable payroll deduction authorization.

9.03: Contribution Pick-Up

A member in service, having executed a binding, irrevocable payroll deduction authorization with respect to any such contributions, shall not be entitled to any option of choosing to receive the

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

contributed amounts directly instead of having them paid by the employer to the Board. Such contributions shall be remitted to the Board, pursuant to M.G.L. c. 32, s. 22(1) (b) in the same manner as all other contributions made thereunder and shall be credited to the member's annuity savings account. Such contributions, although designated as employee contributions, will be paid by the employer in lieu of contributions by the employee. The contributions so assumed shall be paid by the employer in lieu of contributions by the employee. The contributions so assumed shall be treated as tax-deferred employer "pick-up" contributions pursuant to the United States Internal Revenue Code, s. 414(h) (2), subject to a favorable letter ruling by the Internal Revenue Service.

9.04: Partial or Full Payments

Members in service may elect to pay all or part of the accelerated contributions through such payroll deduction. The amounts to be deducted and the duration of the deduction shall be specified on the authorization form prescribed by the Board and the amounts and duration shall be irrevocable and binding once made. Prepayment of amounts covered by the authorization is not permitted. However, nothing herein shall prevent a member from paying any amounts not covered by the authorization with after-tax dollars.

9.05: Procedure

No such payroll deduction shall begin unless and until the member in service executes the payroll deduction authorization described below on a form prescribed by the Board. The Board will send such form to the treasurer or other disbursing officer of the employer. After receiving the binding, irrevocable payroll deduction authorization, the treasurer or other disbursing officer of each employer shall add such contributions to the contributions deducted from the member's regular compensation each pay day pursuant to G.L. c. 32, § 22(1)(b). The employer shall continue to make such deductions for the period specified on the form and shall treat these deductions as picked-up contributions.

December 21, 2001

9.06: Irrevocability of Authorization

All such payroll deductions, including the amounts and the duration specified, shall be binding and irrevocable upon the member's execution of the prescribed form.

Notwithstanding the above, such deductions will cease only after the authorization has expired by its terms or upon any of the following events:

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D.)

(1) The Member's Death. In this event, an eligible beneficiary or spouse having a right to a member-survivor allowance shall pay the remaining amount owed in one lump sum (using after tax dollars). If the entire remaining amount cannot be paid due to I.R.C.

§ 415 limitations, the beneficiary or spouse eligible for a member-survivor allowance shall be entitled to the actuarially reduced benefit available under G.L. c. 32, § 5.

(2) The Termination of the Member's Employment. In this event, the member shall pay the entire remaining amount owed in one lump sum (using after tax dollars) during the same calendar year and within six months of the date of termination or before the date of retirement, whichever occurs earlier, and receive the entire retirement plus benefit. If the remaining amount cannot be paid due to I.R.C. § 415 limitations and the member retires, he or she will receive the actuarially reduced benefit available under G.L. c. 32, § 5 only if the employment terminated involuntarily.

For purposes of 807 CMR 9.06(1) and (2), after tax contributions shall only be received to the extent allowed by § 415 of the Internal Revenue Code.

(3) In no event shall the member receive a return of the payroll deductions made hereunder, except as a refund together with all other contributions as provided in G.L. c. 32, § 10, or as provided in G.L. c. 32, § 5 with respect to a member who retires or terminates without completing 30 years of creditable service.

9.07: Duration

Payroll deductions and installment agreements hereunder shall last no longer than five years.

REGULATORY AUTHORITY

807 CMR 9.00: M.G.L. c. 15, s. 16

The following is effective 12/22/00

Not on MTRB's website

PERAC approved 807 CMR 9.00 (Elective Payroll Deductions -Retirement Plus) on 3/26/01.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Cont'd.)

11.00: RESERVED

March 1, 2002

Not on MTRB's website.

PERAC approved 807 CMR 11.01 (Critical Shortage) on 3/26/01 807 CMR 11.02 (Critical Shortage)

PERAC did not approve the follow Regulation 3/26/01: 807 CMR 11.03 (Restrictions)

2.01: Purpose of Standard Rules

807 CMR 2.00 governs the election of the two elected members of the Massachusetts Teachers' Retirement Board. The purpose of 807 CMR 2.00 is to establish the procedure by which members of the Massachusetts Teachers' Retirement System shall elect two members in accordance with the provisions of M.G.L. c. 15, s. 16 and shall be supplemental to those rules governing the election of retirement board members as promulgated by the Public Employee Retirement Administration Commission and set out in 840 CMR 7.00.

2.02: Notice of Election and Eligibility

(1) The Massachusetts Teachers' Retirement Board will forward notice of the upcoming election to each school district, educational collaborative, and charter school on or before September 1 of an election year. The notice shall specify how, where, and when nomination papers can be obtained. Each retired member will receive a similar notice in conjunction with the distribution of the August retirement payment.

(2) Members in service (actively employed or on authorized leave of absence) as of September 1 of an election year or members retired from service shall be eligible for nomination as a candidate to fill either of the two elected positions on the Board upon submission of nomination papers as provided by the Board, containing the valid signatures of at least 100 members in service or members retired from service.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Cont'd.)

(3) All nominees who have qualified as candidates for election will be notified of the same and will be invited to submit a brief biographical sketch of 100 words or less to be distributed to eligible voters as part of the ballot packet. The Board shall establish a deadline for the submission of each nominee's biographical sketch. Any biographical sketch received after the deadline and any portion of a biographical sketch which exceeds 100 words will not be distributed.

2.03: Nomination Papers

(1) Nomination papers will be available as of September 10 of an election year, and will be forwarded to members upon request together with a copy of the Rules of Election.

(2) The Massachusetts Teachers' Retirement Board will validate signatures submitted on nomination papers provided by the Board to a candidate.

(3) The candidate must submit nomination papers containing the names of at least 100 members at one time in one packet. Nomination papers must be received at the Board's Boston Office on or before October 15 of an election year. In the event that October 15 falls on a Saturday or Sunday, nomination papers must be received on or before 5:00 P.M. of the next business day.

(4) Members in service and members retired from service may sign nomination papers. Members may sign more than one set of nomination papers.

(5) The Election Officer will validate nomination papers. If the Election Officer determines that a candidate has filed nomination papers containing less than 100 qualified signatures, the Election Officer shall declare the nomination papers invalid and shall notify the candidate of his decision in writing.

July 4, 2003

2.04: Printing Ballots and Envelopes

(1) The Election Officer shall print an Official Ballot containing only the proper names of the candidates in an order determined by random drawing, and their respective school districts or their last employer school district. If an incumbent elected member is nominated, he or she shall be identified as an incumbent on the official ballot

(2) The Election Officer shall determine the actual format of the Official Ballot and the return envelope with the approval of the Board. For the purpose of determining eligibility to vote, the ballot envelope shall provide for the signature, printed name, and social security number of the voter.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Cont'd.)

2.05: Distribution of Ballots

(1) The Election Officer shall print an election information packet which will contain voting instructions and biographical sketches of each candidate as provided by 807 CMR 2.02(3).

(2) The Massachusetts Teachers' Retirement Board will mail the Official Ballot, together with the election information packet, to the home address of every member on or before November 10. In the event that a home address is not available for a member in service, the Massachusetts Teachers' Retirement Board shall mail the ballot in care of his or her school district.

(3) The Official Ballots must be received at the Boston Office of the Board on or before 5:00 P.M. on December 10. In the event that December 10 falls on a Saturday or Sunday, the ballots must be received on or before 5:00 P.M. of the next business day.

2.06: Verification of Ballots

(1) The Election Officer shall verify ballot envelopes and ballots against the official records of the Massachusetts Teachers' Retirement System.

(2) Verified ballots shall remain in sealed ballot envelopes until the day of the official count.

2.07: Tabulation of Ballots

(1) The Election Officer, with the approval of the Board shall set the date when ballots will be counted.

(2) Only the members of the staff of the Board under the direction of the Election Officer shall count ballots.

(3) The Election Officer will disqualify ballots if:

- (a) the ballot envelope contains insufficient information to verify eligibility.
- (b) ballots are not returned in the envelope provided by the Board.
- (c) ballots of members who have voted more than once.
- (d) ballots are received after the deadline.
- (e) ballots contain identifying data of the voter.
- (f) ballots contain more than two votes.
- (g) ballots are illegible such that the voter's choice of candidates is ambiguous,

The Election Officer shall retain all disqualified ballots and ballot envelopes for 60 days after certification of the results.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Cont'd.)

(4) The Election Officer shall notify each candidate of the time and location of the tabulation of the ballots and shall permit all candidates, or their representatives, to be present at the tabulation.

2.08: Certification and Recount

(1) The Election Officer shall certify the results of the election to the Board at the regular meeting of the Massachusetts Teachers' Retirement Board not later than the month of December in any election year.

(2) The Massachusetts Teachers' Retirement Board shall notify all candidates formally in writing by certified mail of the results of the election within five days of certification to the Board.

(3) Any candidate who lost the election by fewer than 200 votes may request a recount provided that such request, made to the Election Officer, is received in writing within seven days of notification of the election results.

(4) The Election Officer shall conduct a recount within five days of receipt of such a request and shall review disqualified ballots.

(5) The Board shall retain all valid and invalid official ballots for 60 days.

2.09: Administration

(1) Unless otherwise determined by the Board, the Executive Director shall serve as Election Officer.

(2) Except for the election information packet required by 807 CMR 2.04(1), the Board shall not distribute any campaign paraphernalia or literature on behalf of any candidate.

(3) Notwithstanding anything in 807 CMR 2.09(1) and (2), the Executive Director may enter into a contract with an appropriate vendor for services in connection with the election or otherwise delegate such functions of the Election Officer as he may deem appropriate.

REGULATORY AUTHORITY

807 CMR 2.00: M.G.L. c. 15, s. 16

Approved 2/25/02 MTRB Rollover Distributions Trust to Trust Transfers
Do not know if the Office of the Secretary of State has approved this

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Cont'd.)

Approved 8/7/02 Retirement and Credit for Service

Do not know if the Office of the Secretary of State has approved this

Approved 5/5/03 Employer's Certification in Connection with Termination Allowance

New Form and the board may authorize the Executive Director or the designee to sign the Termination Allowance Transmittal to the Commission.

Approved 4/2/04 Individual Life Insurance

Any premiums paid by a governmental unit for the purchase of any individual life insurance policy and/or individual disability insurance policy. "Premiums paid by a governmental unit" shall, subject to verification as specified by the agency, include amounts paid to the member as reimbursement for actual amounts already paid by the member for such premiums with appropriate documentation, but not amounts paid to the member that may or may not be used for premiums. "Life insurance policy" shall include a term or whole life insurance policy. Nothing herein shall affect the inclusion in regular compensation of payments to annuity contracts, which are governed by M.G.L. c. 32, § 1 and 807 CMR 6.00.

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a seven person Board of Retirement consisting of the Commissioner Of Education or a designee who shall be a member ex officio, the State Treasurer or a designee, the State Auditor or a designee, a member appointed by the governing authority, two members who shall be elected by the members in or retired from the service of such system, and a member appointed by the other six board members.

Ex officio Member:	David P. Driscoll		
Treasurer's Designee:	Nicola Favorito		
Auditor's Designee:	John W. Parsons		
Appointed Member:	Ellen T. Hargraves	Term Expires:	4/18/06
Elected Member:	John A.M. Dow, Jr.	Term Expires:	12/31/07
Elected Member:	George F. McSherry	Term Expires:	12/31/07
Appointed Member:	Linda M. Ruberto	Term Expires:	12/31/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Pension Reserve Investment Management Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$500,000
Elected Member:)	Hartford Casualty Insurance
Appointed Member:)	
Staff Employee:)	

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Public Employee Retirement Administration Commission** as of **January 1, 2004**.

The actuarial liability for active members was	\$14,289,699,000
The actuarial liability for vested and non-vested terminated members was	300,000,000
The actuarial liability for non-vested terminated members was	0
The actuarial liability for retired members was	9,929,360,000
The total actuarial liability was	24,519,059,000
System assets as of that date were (actuarial value)	17,074,650,000
The unfunded actuarial liability was	<u>\$7,444,409,000</u>
The ratio of system's assets to total actuarial liability was	69.6%
As of that date the total covered employee payroll was	\$4,555,899,571

The normal cost for employees on that date was 9.50% of payroll

The normal cost for the employer was 2.22% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: service-based rates

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	17,074,650,000	24,519,059,000	7,444,409,000	69.6%	4,555,899,571	163.40%
1/1/2003	14,762,249,000	22,891,722,000	8,129,473,000	64.5%	4,406,437,490	184.49%
1/1/2002	15,712,183,000	20,619,960,000	4,907,777,000	76.2%	4,263,661,000	115.11%
1/1/2001	14,390,340,000	18,169,683,000	3,779,343,000	79.2%	4,072,062,000	92.81%
1/1/2000	13,681,111,000	16,420,271,000	2,739,160,000	83.3%	3,703,587,026	73.96%

Teachers' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	*	*	*	1,798	1,860	1,249	2,348	1,437	1,359	1,352
Ordinary Disability	*	*	*	***	17	***	27	5	24	12
Accidental Disability	*	*	*	***	4	***	16	5	9	6
Total Retirements	0	0	0	1,798	1,881	1,249	2,391	1,447	1,392	1,370
Total Retirees, Beneficiaries and Survivors	*	*	*	30,492	32,375	31,746	33,063	34,897	37,443	39,755
Total Active Members	*	*	*	71,814	77,398	74,060	80,592	83,692	80,191	84,255
Pension Payments										
Superannuation	\$350,510,999	\$384,140,274	\$402,968,176	\$430,119,370	\$455,781,772	\$486,317,429	\$524,067,215	\$593,647,040	\$683,104,926	\$779,131,002
Survivor/Beneficiary Payments	**	**	**	**	**	**	**	**	**	**
Ordinary Disability	**	**	**	**	**	**	**	**	**	**
Accidental Disability	**	**	**	**	**	**	**	**	**	**
Other	42,556,082	41,399,335	41,520,499	42,736,285	47,797,813	56,797,650	27,648,698	118,532,180	99,637,668	116,768,109
Total Payments for Year	\$393,067,081	\$425,539,609	\$444,488,675	\$472,855,655	\$503,579,585	\$543,115,079	\$551,715,913	\$712,179,220	\$782,742,594	\$895,899,111

* Membership numbers are unavailable for these years; ** Payments included with superannuation numbers

*** Disability retirements included with the superannuation retirements

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